

# Responsible Investment Policy

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## 1. Introduction

A globally accepted definition of sustainability has been formulated by the [Brundtland Commission](#). It states that sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

What does sustainability mean for PUBLICA's asset management, and what sustainability approaches does PUBLICA implement in its investments? This document answers those questions by describing our sustainability principles and outlining the specific actions that PUBLICA has taken.




## 2. PUBLICA's definition of sustainability

PUBLICA uses the term "responsible investment" rather than referring to "sustainability". We invest responsibly by taking account of environmental, social and governance issues when investing our members' assets. This allows us to improve the risk/return ratio over the long term.

PUBLICA's main task is to protect against or mitigate the economic consequences of old age, disability and death for its insured members, having due regard to the legal and economic environment. The latter is made up of various elements, including the Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (OPA), the minimum interest rate, the conversion rate, and the performance of the financial markets. Responsible investment is part of the statutory fiduciary duty of due diligence. PUBLICA adheres to the Brundtland definition because it takes a long-term perspective. ESG criteria are therefore integrated into the investment process in order to improve the risk/return ratio over the long term. ESG stands for environmental, social and governance. We factor issues drawn from all three areas into our investment activities.

### What are ESG criteria?

ESG stands for environmental, social and governance. The following table gives a few examples of criteria for each dimension.

 <b>Environmental</b>	 <b>Social</b>	 <b>Governance</b>
Greenhouse gas emissions	Working conditions	No corruption or bribery
Biodiversity	Human rights	Shareholder rights
Environmental protection	No forced labour	Compliance with laws
Resources	Ban on child labour	Remuneration guidelines
Renewable energies	Education and health	Transparency and communication

### 3. Legal framework

Responsible investment is part of our fiduciary duty of due diligence. The attention we pay to ESG criteria influences the security and profitability of our investments. The law does not permit us to deliberately forgo a market return.

PUBLICA actively exercises its voting rights as owner in respect of Swiss companies and certain companies based abroad, and maintains dialogue with firms in Switzerland and elsewhere. This goes beyond what the law requires us to do.

The normative basis is used to define ESG criteria for issues such as environmental pollution, respect for human rights, corrupt conduct, etc. It is objective and based on Swiss laws as well as international agreements and conventions.

#### 3.1 Legal mandate

The Swiss Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (OPA) requires pension funds to invest the assets of their active members and pension recipients responsibly and in their interests. They should aim to generate a return that allows active members and pension recipients, using their salary contributions to complement their state pension, to maintain their accustomed lifestyle in an appropriate manner in retirement and in the event of disability or death. Pension funds must take appropriate measures to limit risks at all times. They must also ensure that the promised benefits can always be paid out in a timely manner.

**The Act and the associated Ordinance (OPO2)** provide the legal basis for PUBLICA's investment activity. Article 71 OPA summarises the fiduciary management of pension fund assets as follows: "Pension plans shall manage their assets with a view to safeguarding the **security of their investments**, and ensuring a **reasonable return, appropriate risk distribution** and adequate liquidity to cover their foreseeable requirements." Under Article 71a OPA, pension institutions are obliged to assert their rights as owners by **exercising their voting rights at companies in Switzerland** and doing so in the interest of their members.

The Ordinance adds further detail on the duty of due diligence (Arts 49–53 OPO2):

- The pension institution's supreme governing body is responsible for the management of investments, ensuring that assets are managed transparently and in a way that takes due account of the risks and returns involved.
- "Reasonable return" means that pension institutions must aim to **achieve a return that is in line with the money, capital and real estate markets**.

Further details of the legal aspects are set out in PUBLICA's Investment Guidelines:

- Environmental, social and governance considerations are factored into investment decisions, but without negatively affecting **the expected risk-adjusted return**.
- **Voting rights are exercised** in the long-term interests of the insured members, and with a view to ensuring that the enterprise value of the company concerned is increased over the long term.

### 3.2 Normative basis

PUBLICA does not define or employ its own politically motivated or moral criteria, and is instead guided by the will of the Swiss electorate. In principle, this also reflects the will of PUBLICA's more than 100,000 active members and pension recipients in their capacity as voters. The Swiss electorate expresses its will in the outcomes of federal votes on mandatory and optional referendums as well as popular initiatives. The political will also manifests itself in the parliamentary procedural requests forwarded by the Federal Assembly. The criteria for PUBLICA's responsible investment activity are dictated in part by the Swiss Federal Constitution and the legislation derived from it, as well as the international conventions ratified by Switzerland, which largely coincide with the 10 principles of the [UN Global Compact](#). The complete list of all relevant legal bases can be found in the "Normative Basis" document on the [SVVK-ASIR website](#).

## 4. How PUBLICA implements responsible investment

PUBLICA adopts different approaches to responsible investment for each asset class, in order to take environmental, social and governance issues into account when investing the assets it holds. We exercise our voting rights, maintain dialogue with companies, screen our portfolio in accordance with positive and negative criteria, and integrate ESG issues directly into the financial analysis of securities and direct real estate investments.

PUBLICA defines its responsible investment approaches in line with its legal mandate. They comply with the following principles:

1. They are formulated in a holistic fashion, so that as far as possible all asset classes can be taken into account.
2. They are integrated into and thus form part of the investment process.
3. They are guided by the normative basis.
4. They are transparent and comprehensible.

PUBLICA takes account of the approaches to responsible investment set out in the following diagram:

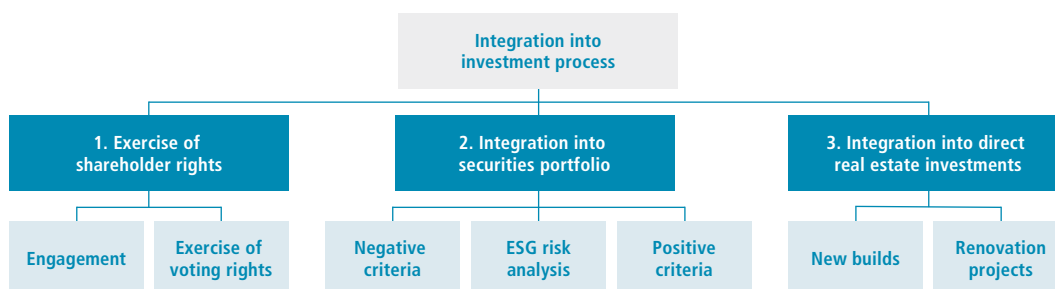


Diagram of PUBLICA's sustainability strategies

## 4.1 PUBLICA exercises its shareholder rights

PUBLICA assumes its responsibilities as owner on two different levels:

- In the case of firms listed in Switzerland and some of those listed abroad, we exercise our **voting rights**.
- In the case of selected companies in Switzerland and abroad, PUBLICA pursues a **dialogue** referred to as “engagement”.

Actively exercising its rights as a shareholder enables PUBLICA to identify dangers, and so reduce financial risks while increasing opportunities. Our engagement, in particular, is designed to encourage the companies concerned to move towards more responsible business practices. This often achieves more than simply selling an investment if PUBLICA considers that the company is not acting in a sufficiently responsible manner.

### 4.1.1 Exercising voting rights

PUBLICA actively exercises its voting rights at Swiss companies. As regards firms based abroad, PUBLICA focuses on the 100 largest in the portfolio and those with which it is engaged in dialogue. Equities in respect of which we exercise our voting rights are not lent out to other investors. PUBLICA’s voting behaviour is geared to the long-term interests of the active members and pension recipients, and seeks to ensure that the enterprise value of the company concerned is increased over the long term. PUBLICA discloses its voting behaviour and publishes it on its [website](#).

A publicly accessible Voting Guideline drawn up by PUBLICA in collaboration with its external voting rights consultant Inrate serves as a key reference for the exercise of voting rights in Switzerland and abroad. The Guideline is geared to the principles of correct corporate governance, having regard to the legal basis and a governance rating system developed by Inrate which can be viewed at [Inrate](#).

### 4.1.2 Maintaining dialogue

PUBLICA maintains a dialogue with Swiss companies on a range of ESG issues. It has instructed the voting rights consultant for Swiss shares to discuss ESG issues with the companies concerned after consultation with PUBLICA, where they are economically relevant. We call this process “engagement”. Coordinated with and complementing this, PUBLICA pursues dialogue with companies in Switzerland and abroad that breach the normative basis. To that end, PUBLICA screens the equity and corporate bond universe regularly for systematic and serious breaches of the normative basis. The dialogue aims to make the company change the conduct that is regarded as critical. In parallel with this, PUBLICA exercises its voting rights in those companies. This strengthens shareholder rights, as exercising voting rights is an additional way to express PUBLICA’s concerns. The dialogue is conducted over a period of two to four years. Where the dialogue fails to progress and an escalation is appropriate, we support collaborative investor letters or shareholder motions, or vote against individual directors. The sale of individual investments is considered as a last resort if, despite ongoing dialogue, there is no prospect of the company improving its conduct.

## 4.2 Investing responsibly in securities

PUBLICA regularly reviews its investments on the basis of **negative criteria** and excludes companies that do not adhere to the normative basis. It also conducts an annual **strategic risk analysis**, prioritises ESG risks that are difficult to quantify, and analyses them in depth. These include risks that could have a significant financial impact on individual companies or sectors. PUBLICA also takes account of **positive criteria**. This leads to certain investments being preferred or companies being overweighted.

### 4.2.1 Negative criteria

PUBLICA does not invest in companies that, through their conduct or their products, engage in systematic and serious breaches of the normative basis. To ensure that this is the case, it conducts a semi-annual screening to identify companies with undesired products or conduct. PUBLICA attaches importance to the most precise possible interpretation of these negative criteria and is guided by the practice of comparable institutional investors in Switzerland and abroad. PUBLICA excludes from its portfolios:

- manufacturers of controversial weapons (anti-personnel mines, cluster munitions and nuclear weapons),
- companies, on the grounds of conduct-based criteria, if efforts to engage in dialogue are unsuccessful, and
- companies that produce coal or generate electricity from coal, with the exception of companies with which PUBLICA is engaging in dialogue or that have a credible coal exit plan in place. PUBLICA has so far refrained from excluding other fossil fuel companies, preferring instead to maintain a dialogue aimed at helping those companies move into more responsible areas of business.
- companies on the State Secretariat for Economic Affairs (SECO) sanctions list.

### 4.2.2 Strategic risk analysis

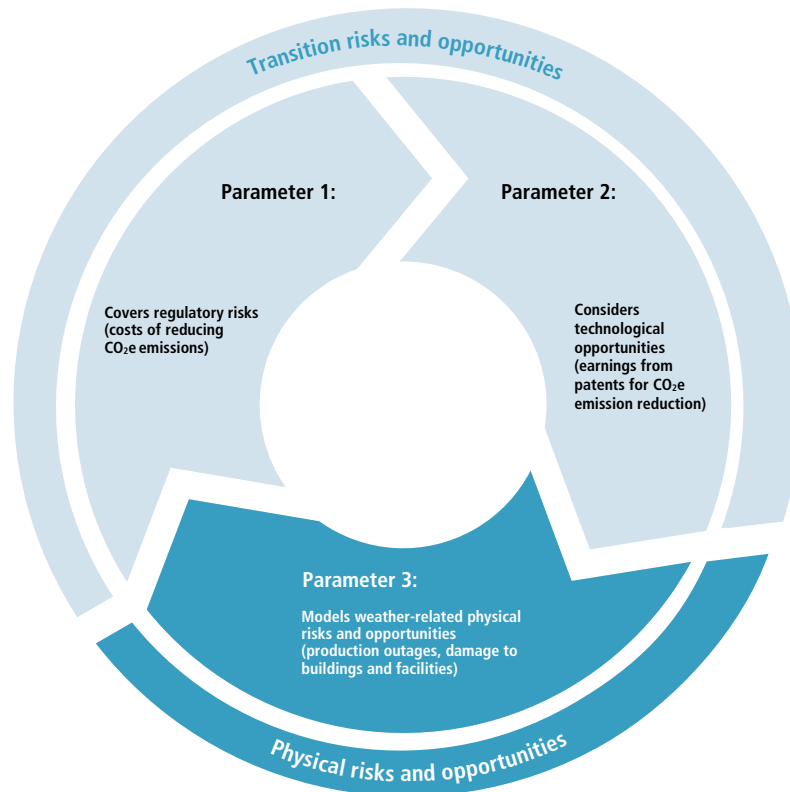
As part of extended risk management, PUBLICA carries out an annual strategic risk analysis according to ESG criteria. Its aim is to prioritise and then analyse in depth risks that are difficult to quantify and could result in tangible financial losses to the assets managed by PUBLICA. Based on the results, PUBLICA considers measures to reduce the risks and implements them where necessary. Over recent years, PUBLICA has prioritised a range of issues, analysed them in depth and implemented the measures set out below.

The analysis of “stranded assets” (assets that lose their value earlier than expected) led to the exclusion of companies that produce coal or generate electricity from coal (see negative criteria).

The analysis of the impact of climate change on investments led PUBLICA to define a bespoke, climate-efficient equity index, which it now applies. Additionally, the weighted average CO<sub>2</sub>e intensity of the corporate bonds is being reduced compared with the benchmark. The weighted average CO<sub>2</sub>e intensity is an indicator of a portfolio’s CO<sub>2</sub>e footprint and measures how many tonnes of CO<sub>2</sub> or similar greenhouse gases a company emits compared with its revenues.

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## PUBLICA's climate-efficient equity index



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PUBLICA uses a tailor-made, climate-efficient equity index licensed by MSCI to systematically steer climate-related opportunities and risks in its investments, taking account of a range of climate scenarios. The index is based on three parameters:

- **Parameter 1 (transition risks):** The expected costs of taxation of CO<sub>2</sub>e emissions (Scope 1–3) over a 30-year period are compared with the company's market capitalisation. This ratio acts as a risk measure for potential regulation to achieve the goals of the Paris Agreement.
- **Parameter 2 (transition opportunities):** This is based on an innovative analysis of almost 100 million patents registered worldwide in more than 400 categories, all of which are aimed at reducing greenhouse gases. The potential earnings over a 30-year period are simulated in relation to the company's market capitalisation. This captures the opportunities that regulation opens up for innovative and adaptable companies.
- **Parameter 3 (physical opportunities and risks):** Changes in climate are increasingly leading to interruptions to business as well as damage to production facilities and office premises. Parameter 3 includes the expected costs consequent on this. Climate-related advantages such as higher crop yields due to milder temperatures are also taken into account. All a company's locations are included when calculating parameter 3.

The three parameters allow investments in companies with negative exposure to be underweighted while overweighting investments in companies that are best prepared for climate risks or have technologies and business models to reduce greenhouse gas emissions. Climate efficiency results from an improvement of up to 50% in each of the three parameters described over the equity portfolio as a whole, without any deterioration in the expected risk/return ratio compared with the original equity index.

Further information on the climate-efficient equity index can be found on [PUBLICA's website](#).

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The analysis of the US-China conflict led PUBLICA to implement bespoke ESG indices for emerging market government bonds. The country universe is defined in collaboration with FTSE Russell, and the ESG criteria for weighting those countries are implemented in the index in a rules-based manner, with the potentially investable countries being selected on the basis of the assessment by [Freedom House](#) and the [V-Dem Institute](#). The companies in the resulting universe are then overweighted or underweighted based on ESG criteria. The following criteria are taken into account:

- Environmental: energy, climate, resources (including biodiversity)
- Social: inequality, employment levels, human capital and innovations, health, social wellbeing
- Governance: corruption, effectiveness and quality of government, political stability and absence of violence, rule of law, co-determination and accountability.

#### 4.2.3 Positive criteria

By taking account of positive criteria, we aim to divert financial flows towards responsible companies and investments while maintaining the same risk/return profile. This strategy is factored into the construction of the climate-efficient equity index, by overweighting companies that have filed patents for processes and products to reduce greenhouse gases, such as renewable energies and energy storage technologies. Fixed-income investments are made in “green bonds”. As regards private infrastructure bonds, investments in renewable energies such as wind farms and photovoltaic installations or, in the social category, social housing and medical research centres are preferred.

### 4.3 Responsible direct real estate investment

PUBLICA holds a high-quality portfolio of mostly recently built Swiss real estate. Three quarters of all properties were built after 2000. PUBLICA also adopts a responsible approach to its direct real estate investments, with a view to improving the risk/return profile of the properties and ensuring that they are as economically efficient as possible. PUBLICA views the real estate asset class from a future-oriented and holistic perspective, as part of risk management that incorporates economic, environmental and social factors. The focus is on the economic and environmental sustainability of projects and existing real estate investments. For example, PUBLICA has defined an ambitious path to reduce CO<sub>2</sub>e emissions (Scope 1) by replacing heating systems that use fossil fuels such as oil with alternatives such as district heating or heat pumps. Where economically viable and technically feasible, PUBLICA implements further measures such as insulating the building shell or optimising operation. PUBLICA also promotes energy efficiency and renewable energies such as photovoltaic, the planting of native flora, and raising tenants' awareness of natural resource conservation.

## 5. PUBLICA sets itself targets and reports on them

PUBLICA is committed to constant improvement in terms of responsible investment and has defined climate targets as a first step. The target is to achieve net zero emissions by the end of 2050 at the latest. We continually measure our progress towards the targets and provide reports on it.

The UN has defined 17 Sustainable Development Goals. They are a plan for making a globally sustainable society a reality and are a global standard to which governments and companies can adhere. Not all the UN Sustainable Development Goals and their 169 targets are relevant to PUBLICA's portfolio. PUBLICA has therefore prioritised four of the 17 Goals:

Goal 7: Affordable and clean energy

Goal 13: Climate action

Goal 8: Decent work and economic growth

Goal 16: Peace, justice and strong institutions

Where possible, PUBLICA measures the contributions made by the portfolio investments to these four Goals regularly, and reports on them. The measurement approach is continually refined.

As a first step, PUBLICA has defined the climate targets set out in the following table. We aim to achieve net zero emissions by 2050 at the latest. Net zero means that all greenhouse gas emissions caused by human beings must be removed from the atmosphere again through reduction measures. The targets set for equities, corporate bonds and real estate Switzerland help to address the financial risks of climate change. The reduction path for Swiss real estate also contributes to reducing CO<sub>2</sub>e emissions in Switzerland.

### Objectives by asset class

	Objective	Proportion of overall portfolio <sup>1</sup>	Status
Overall portfolio	Net-zero emissions by 2050 at the latest	100%	Being implemented
Equities Switzerland	<ol style="list-style-type: none"> <li>1. Reduce transition risks by 30% compared with the benchmark</li> <li>2. Increase transition opportunities by 30% compared with the benchmark</li> <li>3. Reduce physical risks by 30% compared with the benchmark</li> </ol>	6%	Achieved
Equities developed and emerging markets	<ol style="list-style-type: none"> <li>1. Reduce transition risks by 50% compared with the benchmark</li> <li>2. Increase transition opportunities by 50% compared with the benchmark</li> <li>3. Reduce physical risks by 50% compared with the benchmark</li> </ol>	26%	Achieved
Corporate bonds US and Europe	Reduce CO <sub>2</sub> e intensity by at least 40% compared with the benchmark	5%	Achieved
Real estate Switzerland	Reduce CO <sub>2</sub> e emissions (Scope 1) to 5.6 kg CO <sub>2</sub> e/m <sup>2</sup> ERA by 2030 and 4.2 kg CO <sub>2</sub> e/m <sup>2</sup> ERA by 2035	9%	Implementation by 2030/2035

<sup>1</sup> As per 2022 strategic asset allocation for the open pension plans.

PUBLICA measures its progress towards achieving the climate targets regularly and reports on it annually. The reporting is based largely on the ASIP ESG Reporting Standard and the Swiss Climate Scores. It is revised every year and expanded when needed. The latest reports can be found on [PUBLICA's website](#). SVVK-ASIR's engagement report is available on its [website](#).

## 6. External partners

PUBLICA works with external partners to implement the various responsible investment approaches.

### [Inrate \(exercise of voting rights in Switzerland and engagement in Switzerland\)](#)

The sustainability rating agency [Inrate](#) assists PUBLICA in exercising voting rights in respect of companies based in Switzerland. Inrate employs a Voting Guideline drawn up with the involvement of PUBLICA that is reviewed regularly and updated as necessary. Inrate regularly discusses a range of ESG issues with Swiss companies on PUBLICA's behalf.

### [Minerva Analytics \(exercise of voting rights outside Switzerland\)](#)

[Minerva Analytics](#) is a UK-based proxy voting agency. Minerva supports PUBLICA in the exercise of its voting rights in foreign companies. The Voting Guideline developed together with Inrate is applied.

### [Swiss Association for Responsible Investments \(SVVK-ASIR\) \(negative criteria and engagement in Switzerland and abroad\)](#)

The [Swiss Association for Responsible Investments \(SVVK-ASIR\)](#) aims to assist its members in implementing their sustainability strategies. The Association, which was founded in December 2015 by PUBLICA and six other major investors, has since been joined by further large investors. SVVK-ASIR assists PUBLICA with conduct- and product-based screening and engages in dialogue with global companies on PUBLICA's behalf.

### [Urgewald \(negative criteria for coal\)](#)

[Urgewald](#) is a German non-profit association dedicated to environmental protection and human rights. PUBLICA uses Urgewald's [Global Coal Exit List](#) to identify and exclude companies that are involved in coal.

### [MSCI \(climate-efficient equity index\)](#)

[MSCI](#) is a US financial service company and a leading provider of indices and ESG data. PUBLICA worked with MSCI to develop the climate-efficient equity index, which is licensed by MSCI. PUBLICA also uses climate data from MSCI for its annual reporting.

### [FTSE Russell \(ESG indices for emerging market government bonds\)](#)

[FTSE Russell](#) is a subsidiary of the London Stock Exchange Group and a leading provider of indices and ESG data solutions. PUBLICA worked with FTSE Russell to develop the bespoke ESG indices for emerging market government bonds.

### [Amstein + Walthert \(energy monitoring for Swiss real estate\)](#)

[Amstein + Walthert](#) is a Swiss building services engineering company. It supports PUBLICA with energy monitoring for Swiss real estate.

### **Net Purpose (measurement of contributions to the UN Sustainable Development Goals)**

[Net Purpose](#) is a UK-based company that specialises in collecting and aggregating data on companies' social and environmental outcomes, providing sustainability data that can be linked to the relevant UN Sustainable Development Goals. PUBLICA uses the data to measure contributions to the UN Goals it has prioritised.

### **Memberships**

PUBLICA is a member of the [Swiss Pension Funds Association \(ASIP\)](#), a signatory to the [Principles for Responsible Investment \(PRI\)](#) and a member of the [Institutional Investors Group on Climate Change \(IIGCC\)](#), [Climate Action 100+](#) and the Swiss government's [Exemplary Energy and Climate](#) initiative. PUBLICA takes part in the [REIDA CO<sub>2</sub> Report and Benchmark](#). These memberships enhance access to expertise and knowledge sharing with other institutional investors.

## **7. Further development**

PUBLICA's responsible investment policy and its implementation are continually being refined. Experience and findings will be used to achieve improvements in all areas. PUBLICA will constantly strive to improve transparency and increase standardisation of data, processes and analytical methods in order that ESG issues can be better assessed in future and incorporated into the implementation of the strategic asset allocations.

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